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DEFENSE INFRASTRUCTURE

Continuing Challenges in Managing DOD Lodging Programs as Army Moves to Privatize Its Program



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Highlights of [GAO-07-164](#), a report to congressional requesters

Why GAO Did This Study

The Department of Defense (DOD) transient lodging programs were established to provide quality temporary facilities for authorized personnel, and reduce travel costs through lower rates than commercial hotels. DOD has approximately 82,000 temporary duty (TDY) and permanent-change-of-station (PCS) rooms worldwide, and reported that it cost about \$860 million in appropriated and nonappropriated funds to operate them in fiscal year 2005. While the Army plans to privatize its lodging in the United States, there are concerns as to whether these plans are cost-effective, and how they relate to DOD-wide lodging efforts.

GAO was asked to address (1) how each military service and DOD manages, funds, and assesses the performance of its lodging programs to meet short- and long-term needs, and (2) the effect that lodging privatization would have on the costs to the Army and the ability to maintain and recapitalize facilities. GAO is also providing information on DOD's actions to implement prior recommendations regarding the lodging program. GAO obtained data from the Office of the Secretary of Defense, the military services and visited nine military installations.

What GAO Recommends

GAO is making recommendations to improve DOD's oversight of the lodging program. In commenting on a draft of this report, DOD agreed with the recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-07-164.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Barry W. Holman at (202) 512-5581 or holmanb@gao.gov.

DEFENSE INFRASTRUCTURE

Continuing Challenges in Managing DOD Lodging Programs as Army Moves to Privatize Its Program

What GAO Found

Each military service takes its own approach to manage and fund its lodging programs, but current DOD lodging guidance does not establish performance measures to assess program effectiveness. The Army and Air Force each manage their TDY and PCS lodging under a single organization, while the Navy and Marine Corps have separate organizations managing TDY and PCS facilities. The Marine Corps manages PCS lodging separately because it operates as a profit-generating morale, welfare, and recreation program. The services' lodging programs are provided varying levels of appropriated and nonappropriated fund support, which correlates with the room rates charged. For example, since the Air Force allocates more appropriated funds for program expenses, it charges less than does the Navy PCS program, which is sustained with the revenues generated from room rates. Determining total program costs across the services is difficult because some of the data reported are estimated or hard to collect. Though DOD has a lodging strategic plan, it has not been updated since 1999. DOD has not established lodging performance measures, and the services vary in their efforts to determine program effectiveness. Performance measures could help in assessing future program plans.

The Army believes privatization will provide for faster improvement and long-term sustainment of lodging facilities and avoid costs. GAO recognizes these benefits, but its analysis shows privatization could increase costs through increased room rates and create operating challenges that have implications beyond the Army, such as uneven lodging occupancy and room rates where joint basing is planned. Under privatization, the Army projects that a developer will renovate existing or construct new lodging facilities in 7 years, and provide for their adequate sustainment over the 50-year project life. In contrast, the Army projects it would take over 20 years and cost about \$1.1 billion to upgrade all lodging facilities under current plans, which do not provide for adequate long-term sustainment. GAO found that lodging privatization could increase costs to the government by about \$75 million per year through increased room rates if all lodging facilities in the U.S. are privatized, with those costs borne by the operations and maintenance and military personnel appropriation accounts. The Army currently estimates it will also incur at least \$17.3 million in onetime costs related to severance pay and discontinued service retirement annuities for lodging employees let go because of privatization. Privatization also may affect occupancy levels and exacerbate rate disparities among bases and between official and unofficial travelers, as well as lead to inconsistencies in room rates among services at future joint bases. Complying with relevant reporting requirements contained in housing privatization legislation will allow congressional oversight of the Army's privatization of lodging.

On October 6, 2006, DOD provided the military services with revised lodging guidance, but this guidance lacks performance standards and measures, and does not address which office within the Office of the Secretary of Defense is responsible for lodging policy and oversight of privatized lodging facilities.

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Abbreviations

| | |
|--------|---|
| DOD | Department of Defense |
| DSR | discontinued service retirement |
| LCA | Lodging Capital Assessment |
| LDMP | lodging development and management plan |
| MHPI | Military Housing Privatization Initiative |
| MWR | morale, welfare, and recreation |
| OMB | Office of Management and Budget |
| OSD | Office of the Secretary of Defense |
| PAL | Privatization of Army Lodging |
| PCS | permanent-change-of-station |
| TDY | temporary duty |
| U.S.C. | United States Code |
| VERA | voluntary early retirement authority |

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United States Government Accountability Office
Washington, DC 20548

December 15, 2006

The Honorable Ike Skelton
Ranking Minority Member
The Honorable Solomon Ortiz
Ranking Minority Member
Subcommittee on Readiness
The Honorable Vic Snyder
Ranking Minority Member
Subcommittee on Military Personnel
Committee on Armed Services
House of Representatives

The Department of Defense (DOD) principally operates two types of hotels,¹ or lodges, to support official travelers. The first type, called temporary duty (TDY) lodges, primarily supports military and civilian personnel temporarily traveling on official business. The second, called permanent-change-of-station (PCS) lodges, primarily supports military personnel and their families who are moving to new duty stations. These lodges are intended to provide military travelers and their families with a clean, affordable place to stay while they prepare to move and while they wait for permanent quarters at their new duty stations. According to the 1999 DOD Lodging Strategic Plan, the program goals are to (1) promote customer satisfaction through exceptional service, (2) develop a professional management team and motivated workforce, (3) employ a corporate approach to enhance business-based methods of operation, (4) develop and manage the lodging facilities, (5) assure sound financial management and accountability reflective of the hospitality industry, and (6) pursue efficiencies through interservice cooperative efforts. In March 2002,² we recommended that DOD should provide the military services with a policy framework, including improved lodging guidance, to help achieve DOD's lodging program management objectives.

¹The services also operate recreational lodging and lodging used by individuals visiting patients in military treatment facilities, which are not covered in this report.

²GAO, *Defense Management: Proposed Lodging Policy May Lead to Improvements, but More Actions Are Required*, [GAO-02-351](#) (Washington, D.C.: Mar. 18, 2002).

DOD has approximately 82,000 transient lodging rooms. The Army and the Air Force each manages its TDY and PCS lodging under the same organization, while the Navy and Marine Corps both opt to have separate organizations manage TDY lodges and PCS facilities. Over the past decade the Army, Air Force, and Navy have entered into limited public-private ventures to construct and operate lodging facilities. Recently, the Army announced plans to privatize its entire domestic lodging program utilizing the Alternative Authority for Acquisition and Improvement of Military Housing legislation, commonly referred to as Military Housing Privatization Initiative (MHPI) legislation.³

You requested that we review the services' lodging programs. Our objectives were to (1) describe how each military service manages, funds, and assesses the performance of its lodging program to meet short- and long-term needs; and (2) assess the effect that privatization of lodging would have on the cost to the Army, and on its capability to maintain and recapitalize lodging facilities. Additionally, we are providing information concerning the status of GAO's prior recommendations regarding DOD lodging programs.

To determine how the military services manage and fund their lodging programs, we reviewed DOD and military service lodging policies and regulations and interviewed key officials in the Office of the Secretary of Defense (OSD) and the military services responsible for lodging programs. We analyzed the appropriated and nonappropriated fund support for lodging between fiscal years 2003 and 2005. Furthermore, we visited eight military installations (two in each military service) to determine how each of the services manages and supports its lodges and to observe their physical condition. To identify and assess Army plans to privatize lodging in the United States, we interviewed officials within the Office of the Assistant Secretary of the Army (Installations and Environment) and analyzed documentation used to support its decision to privatize lodging. We also interviewed service officials and developers involved in previous lodging public-private ventures to identify lessons learned from these efforts. Finally, we met officials in the Office of the Secretary of Defense (Personnel and Readiness) to determine the status of implementing GAO's prior recommendation to improve DOD lodging guidance. We conducted our work from December 2005 through October 2006 in accordance with

³10 U.S.C. §§ 2871-2885.

generally accepted government auditing standards. Further details on our scope and methodology are described in appendix I.

Results in Brief

Each military service takes its own approach to manage and fund its lodging programs, but current DOD lodging guidance does not establish detailed performance measures needed to assess program effectiveness. The Army and the Air Force each manages its TDY and PCS lodging under a single organization, while the Navy and Marine Corps opt to have separate organizations manage TDY lodges and PCS facilities. The Marine Corps manages PCS lodging separately because it is operated as a nonappropriated fund, revenue-generating, morale, welfare, and recreation (MWR) program, and the Navy manages PCS lodging separately because it operates it almost exclusively with nonappropriated funds. The military services' lodging programs receive varying levels of appropriated and nonappropriated fund support. The level of appropriated fund support allocated influences the amount the programs charge for room rates. For example, since the Air Force allocates more appropriated fund support for program expenses, it charges less than the Navy PCS program, which is sustained with the revenues generated from room rates. Determining total program costs across the services is challenging, as some of the data reported to OSD are estimated and are difficult to collect. While OSD has established a lodging strategic plan, it has not established performance measures to assess whether the plan's goals are being achieved, and the extent to which the military services have taken the initiative to determine how program effectiveness varies. For example, Navy PCS lodging is the only program that, across all installations, collects and analyzes customer feedback, conducts systematic performance reviews, and compares performance against industry benchmarks.

The Army believes privatizing its lodging may provide for faster improvement and long-term sustainment of lodging facilities as well as achieve savings, but our analysis shows privatization could increase government costs. Further, privatization could create some operating challenges that have implications beyond the Army. Under the Army's PAL (Privatization of Army Lodging) program, the Army projects a developer will renovate existing or construct new lodging facilities in 7 years (by 2014), and provide for adequate sustainment of lodging facilities over the 50-year project life. In contrast, the Army projects it would take over 20 years and cost about \$1.1 billion to upgrade all lodging facilities under current plans, which do not provide for adequate long-term sustainment. However, we found that privatization of lodging while providing faster recapitalization and sustainment of facilities, will likely increase costs to

the government by about \$75 million per year through increased lodging fees if all lodging facilities in the United States are privatized with those costs borne by the operations and maintenance and military personnel appropriation accounts. According to Army officials, the projected increased cost would be offset to some degree by a reduction in the appropriated funding that currently supports lodging operations for such items as utilities and police and fire protection, but the amount of such savings is difficult to gauge. In addition, the Army currently estimates it will incur a total of about \$17.3 million in onetime costs for severance pay (\$12.7 million) and discontinued service retirement annuities (\$4.6 million) for lodging employees let go because of privatization. Furthermore, privatization of Army lodging may potentially reduce current occupancy levels since, once privatized, a facility is no longer considered government lodging and therefore official travelers will no longer be required to stay there. Additionally, privatization could create rate disparities among bases and between official and unofficial travelers, as well as lead to inconsistencies in room rates among services at joint bases.

The Office of the Under Secretary of Defense for Personnel and Readiness issued a revised lodging instruction on October 6, 2006. However, the instruction lacks detailed performance standards and measures and does not resolve the question as to which office within the Office of the Secretary of Defense is responsible for providing lodging policy and oversight of privatized lodging facilities.

We are making recommendations for executive action designed to help DOD improve its lodging program management and oversight and to help ensure the successful implementation of the Army's privatization of lodging. In commenting on a draft of this report, DOD concurred with both of our recommendations and indicated planned actions and timeframes for accomplishing them.

Background

DOD's lodging programs were established to maintain mission readiness and improve productivity, and were intended to provide good quality temporary lodging facilities and service for authorized personnel. They were also created with the goal of reducing official travel costs for DOD's mobile military community by charging room rates lower than those of commercial hotels. Within the Office of the Secretary of Defense, the Office of the Under Secretary of Defense (Personnel and Readiness) has issued the majority of guidance governing TDY and PCS lodging program and resource management, although the Office of the Under Secretary of Defense (Acquisition, Technology and Logistics) has established some

lodging room quality standards within its housing management guidance and is responsible for the housing privatization efforts. Further, while DOD Instruction 1015.11 states that the Principal Deputy Under Secretary of Defense (Personnel and Readiness) is to provide lodging oversight, guidance, and procedures to ensure proper administration and management of DOD lodging programs and monitor compliance with these procedures and guidance,⁴ DOD Directive 4165.63 states that DOD housing (the responsibility for management of which rests with the Under Secretary of Defense for Acquisition, Technology, and Logistics) “encompasses housing for accompanied and unaccompanied personnel and temporary lodging facilities.”⁵ Each of the services also has policies to guide the administration of its lodging programs.

In 1999, the Office of the Under Secretary of Defense (Personnel and Readiness) developed the DOD Lodging Strategic Plan and DOD Lodging Program Standards, and neither have been revised or updated subsequently. The program goals established in the lodging strategic plan are to (1) promote customer satisfaction through exceptional service, (2) develop a professional management team and motivated workforce, (3) employ a corporate approach to enhance business-based methods of operation, (4) develop and manage the lodging facilities, (5) assure sound financial management and accountability reflective of the hospitality industry, and (6) pursue efficiencies through interservice cooperative efforts. The DOD Lodging Program Standards task the military services with applying these program standards and developing detailed operating standards as appropriate, so each of the services also has policies to guide the administration of its lodging programs.

DOD has approximately 82,000 transient lodging rooms.⁶ The major differences between TDY and PCS lodges are the number of rooms in their inventory and the type of traveler they primarily serve. Table 1 shows the magnitude of DOD’s lodging programs.

⁴Department of Defense Instruction 1015.11, Lodging Resource Policy, Section 5.1.2 (Oct. 6, 2006).

⁵Department of Defense Directive 4165.63, DOD Housing, Section 2.2 (Jan. 8, 2005).

⁶The term “rooms” refers to a lodging unit available for sale. Therefore, while the majority of the units in the DOD inventory are rooms, in some cases the unit sold for temporary lodging is a bed in a shared space, an apartment, town home, or house.

Table 1: Magnitude of DOD's TDY and PCS Lodging Programs

| Service | Number of rooms ^a | | |
|-------------------|------------------------------|--------------|---------------|
| | TDY | PCS | Total |
| Army ^b | | | 19,000 |
| Air Force | 27,000 | 3,000 | 30,000 |
| Navy | 26,000 | 3,000 | 29,000 |
| Marine Corps | 3,000 | 900 | 3,900 |
| Total | 75,000 | 7,000 | 82,000 |

Source: Military services.

^aNumbers are rounded to nearest thousand except for Marine Corps PCS number which is rounded to the nearest hundred.

^bThe Army does not distinguish rooms and facilities as TDY or PCS. Both types of travelers are tracked, however, and there are different room styles to accommodate their needs.

Transient lodging serves various military and civilian travelers. TDY lodges serve mainly individual military or civilian travelers who are temporarily assigned to a duty station other than their home station. PCS lodges mainly serve military personnel and their families who are changing permanent duty stations. On a space-available basis, TDY and PCS lodges can accommodate some kinds of “unofficial travelers,” such as military retirees and relatives and guests of service members assigned to the installation.

Total occupancy rates vary by program, ranging from 75 to 92 percent for fiscal year 2005. In addition, lodging occupancy by official and unofficial travelers varies by service. The Army serves the highest percentage of official travelers, and the Marine Corps the lowest, as table 2 shows.

Table 2: Lodging Occupancy by Percent of Official and Unofficial Travelers (Fiscal Year 2005)

| Service | Percent of official travelers | | | Percent of unofficial travelers |
|--------------|-------------------------------|-----|--------------------|---------------------------------|
| | TDY | PCS | Total ^a | |
| Army | 83 | 8 | 92 | 8 |
| Air Force | 79 | 9 | 87 ^a | 13 |
| Navy | 83 | 4 | 88 ^a | 12 |
| Marine Corps | 64 | 11 | 75 | 25 |

Source: Military services.

^aBecause of rounding, TDY and PCS percentages do not equal “percent official.”

Funds provided for lodging operations originate from two sources: appropriated funds and nonappropriated funds. DOD Lodging guidance provides specific guidelines on whether an expense should be paid for with appropriated or nonappropriated funding.⁷ DOD Instruction 1015.12 states that the military services have the authority to waive the fund source that will create higher nonappropriated expenses for TDY lodging and PCS lodging not run as an MWR program. Appropriated funds are typically used for operations and maintenance expenses, such as laundry services and utilities, and some kinds of minor construction. Nonappropriated funds are generated from room rate revenues, and each of the lodging programs sets room rates according to the amount of revenue needed to pay for expenses not covered by appropriated funds. Nonappropriated funds are used to pay for a wide variety of expenses, from some employee wages to certain kinds of replacement furnishings. Funds generated from room rates at TDY lodging and PCS lodging not run as an MWR program are considered to be nonappropriated because the traveler pays for the charge at the time of his or her stay. Most lodging patrons are on official TDY or PCS travel, however, and are reimbursed with funds appropriated to the military services for travel either from operations and maintenance or military personnel accounts. Thus, the majority of funding originates from appropriated dollars. However, to distinguish funding streams, revenues from room sales are referred to as nonappropriated funds. According to DOD financial data, the total amount of appropriated and nonappropriated funding support for operating the lodging programs was about \$857million for fiscal year 2005.

Room rates at these lodges are intended to be set at the lowest rate possible to reduce travel costs, yet generate enough revenue to cover expenses. Some services have added a surcharge⁸ to the nightly room rate, which they accumulate and use for lodge construction and major renovation. Revenues from TDY lodging must be maintained in a separate nonappropriated fund account, designated as lodging, or billeting, fund.⁹ DOD Instruction 1015.12 permits military services to operate PCS lodging

⁷See, for example, Department of Defense Instruction 1015.12, Lodging Program Resource Management (Oct. 30, 1996), and Department of Defense Instruction 1015.10, Programs for Military Morale, Welfare and Recreation (MWR) (November 1995).

⁸The Army and the Air Force have added surcharges, while the Navy and the Marine Corps have not.

⁹Department of Defense Instruction 1015.12, Lodging Program Resource Management, Section 4.3.1 (Oct. 30, 1996).

either (1) through a lodging or billeting fund, or (2) through an MWR fund. PCS lodging that is built, maintained, or operated by other than the MWR program or exchange service must be maintained in a separate fund account, designated as a lodging, or billeting, fund, and is independent of the single MWR fund. When PCS needs are met by MWR operating funds, they are part of the single MWR nonappropriated fund instrumentality and are operated as a category C revenue generating activity. The Marine Corps operates its PCS lodging as part of its MWR program, which is operated as a Category C, revenue generating program. Thus, the lodging revenues are deposited into the Marine Corps's single MWR nonappropriated fund account, which can be used to benefit any of the service's MWR programs.

The vast majority of transient lodging facilities are managed and operated by the military services with civilian workers paid by nonappropriated funds. Over the past decade, however, the Army, Air Force, and Navy have entered into limited public-private ventures to construct and operate lodging facilities on 10 installations with some degree of risk shared between the government and the private sector. Appendix II provides additional details concerning the 10 previous public-private lodging ventures.

Privatization of Army Lodging

According to the Army, approximately 80 percent of Army lodging inventory needs replacement or major renovation because of persistent funding shortfalls and the lack of capital investment. The Army estimates that, absent privatization, it would cost about \$1.1 billion and would take more than 20 years to renovate or build new lodging facilities. Given the cost and length of time associated with revitalization under the Lodging Wellness Plan, the Army considered the use of commercial loans and enhanced-use leasing, before deciding on privatization of lodging facilities in the United States. The Army is using the same legislation that allowed the department to privatize its family housing for its lodging privatization effort.¹⁰ Congress established the MHPI in the National Defense Authorization Act for Fiscal Year 1996.¹¹ The MPHPI legislation gives the Secretary of Defense the authority to (with certain restrictions) provide direct loans, rental guarantees, ground leases, and other incentives to encourage private developers to construct and renovate housing. Under

¹⁰ 10 U.S.C. §§ 2871-2885.

¹¹ Pub. L. No. 104-106, §§ 2801 (codified as amended at 10 U.S.C. §§ 2871-2885).

the Army's PAL program, the selected developer will receive a 50-year ground lease and will be responsible for asset, property, and maintenance management.

The Army placed installations in the United States into one of three privatization groups. According to the Army, this was done to mitigate some of the risk associated with privatization, such as the developer choosing high-value properties over those in greater need of repair. The Army planned to select a developer for Group A during September 2006, and to transfer the lodging in this group to the developer by September 2007.¹² The Army plans to transfer installations in Group B by September 2008 and those in Group C by September 2009. The Army anticipates that all lodging facilities will be renovated or replaced in 7 years, by 2014. Furthermore, the Army expects the developers to establish a lodging sustainment and recapitalization fund to maintain the lodging over the 50-year life of the project.

On September 28, 2006, the Army selected a developer for Group A which must submit a lodging development and management plan (LDMP). According to the Army PAL program, after approval of the LDMP business plan by Headquarters, Department of the Army, OSD, and the Office of Management and Budget (OMB), Congress will have a 45-day period to review the plan prior to the Army transferring Group A to the developer.

Services Use Decentralized Approach to Manage and Fund Lodging Programs

Each military service takes its own approach to manage and fund its lodging programs, but current DOD lodging guidance does not establish performance standards and measures needed to assess program effectiveness.

Management and Funding Approaches Differ

Each of the military services uses a different approach to manage and fund its transient lodging programs. The Army and the Air Force each manage their TDY and PCS lodging under one organization, while the Navy and

¹² Group A installations include: Fort Rucker and Redstone Arsenal, Alabama; Yuma Proving Ground, Arizona; Fort Shafter and Tripler Army Medical Center, Hawaii; Fort Leavenworth and Fort Riley, Kansas; Fort Polk, Louisiana; Fort Sill, Oklahoma; Fort Hood and Fort Sam Houston, Texas; Fort Myer, Virginia; and Fort McNair, Washington, D.C.

Marine Corps both opt to have one organization manage TDY lodges and another one for PCS facilities. The Army and Air Force believe using one management structure to serve both TDY and PCS travelers is the most efficient approach. Alternatively, the Navy and Marine Corps believe operating two separate programs, one for TDY travelers and one for PCS travelers, is the most efficient approach for meeting their service's needs. Neither of the two military services currently has plans to merge management of the lodging programs.

The Navy has operated its two programs separately since 1969 when the Navy PCS lodging program was established to be operated almost entirely with nonappropriated funds.¹³ The Marine Corps also operates its TDY and PCS lodging separately. PCS lodging operates almost entirely with nonappropriated funds through the Marine Corps's MWR program and generates a profit, which is not allowed for TDY lodging. The room revenues from the Marine Corps's PCS lodging are deposited in the Marine Corps Community Service account, which also contains funds from other MWR activities and the Marine Corps Exchange Service. In return, the PCS lodging program receives overhead services, such as personnel and accounting, and funds for major repairs or new construction projects. By contrast, all of the other lodging programs have a separate financial account that must at least "break even" on an annual basis, receiving and generating just enough revenues to operate and sustain the program and facilities.

The military services' lodging programs receive varying levels of appropriated and nonappropriated fund support. The level of appropriated fund support allocated influences the amount the programs charge for room rates. Nonappropriated funds are generated through room sales, and each of the lodging programs sets room rates according to the amount of revenue needed to pay for expenses not covered by appropriated funds. For example, the Navy and Marine Corps allocate very limited amounts of appropriated funding to their PCS lodging, so the room rates are higher to generate more nonappropriated funds for program expenses.¹⁴ Room rates are also influenced by surcharges that the Army and Air Force charge to

¹³The Navy lodges overseas receive appropriated fund support for utilities.

¹⁴According to DOD lodging policy, since the Marine Corps's PCS lodging is a profit-generating MWR program and Category C lodging program, it is entitled to receive fewer appropriated funds than the other five lodging programs, which are Category A lodging programs.

raise revenue for room and facility improvements. As table 3 illustrates, average daily room rates vary considerably across the programs, ranging from \$14 to \$65.

Table 3: Comparison of Average Daily Room Rates by Lodging Program for Fiscal Year 2005

| Military services' lodging programs | Room rate includes daily surcharge for adequate rooms ^a | Total average daily room rate |
|-------------------------------------|--|-------------------------------|
| Army | \$10 | \$37 |
| Air Force | | |
| TDY | 7 | 29 |
| PCS | 6–8 | 33 |
| Navy | | |
| TDY | n.a. | 14 |
| PCS | n.a. | 65 |
| Marine Corps | | |
| TDY | n.a. | 19 |
| PCS | n.a. | 57 |

Source: Military services.

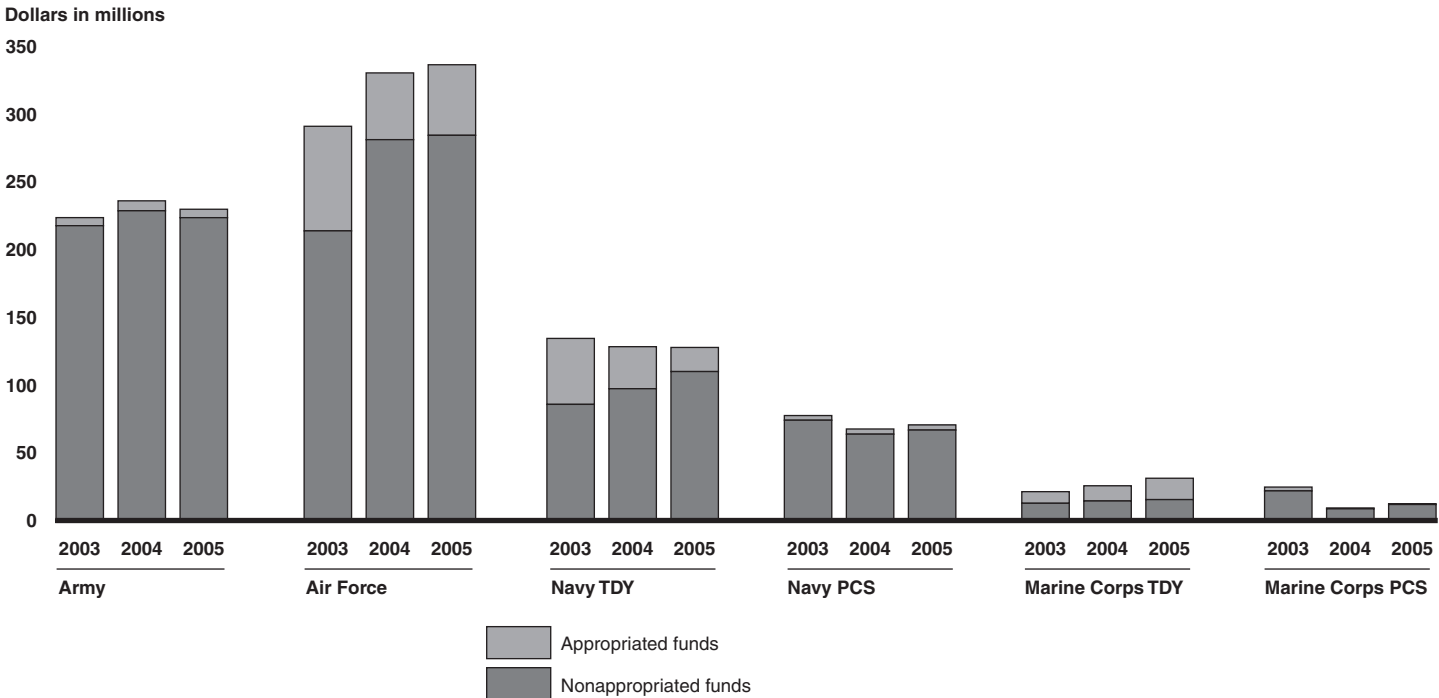
Note: n.a.=not applicable; there is no surcharge.

^aA surcharge is an assessment added to the daily room rate to be used in the future for capital improvements to lodging facilities. The Army initiated its surcharge in fiscal year 2000. The Air Force began applying the assessment for PCS facilities in 1982 and TDY facilities in 1996.

Navy PCS is the only program that accrues all future capital expenditures through room revenues, while the other programs benefit from other sources of support, such as appropriated funds, shared construction funds, or lodging surcharges. A Navy official explained that this is one reason why the Navy PCS average daily room rate is higher than other programs' rates. For fiscal year 2005, five of the six programs' room rates were lower than the \$60 standard per diem lodging rate, and all were lower than the \$89 average per diem lodging rate for nonstandard areas. The per diem rates are what a traveler could expect to pay, on average, and subsequently be reimbursed for, while staying off-base in a commercial hotel. The DOD room rates do not necessarily include all sources of program support. However, so comparing room rates to the per diem lodging rates is not an appropriate measure of cost efficiency or program value.

The amount of appropriated funds and nonappropriated funds the services reported spending on lodging program expenses for fiscal years 2003 through 2005 varied considerably as seen in figure 1.

Figure 1: Appropriated and Nonappropriated Funding for Lodging Programs by Military Service for Fiscal Years 2003 through 2005



Source: GAO analysis of data from the military services.

Note: These data were officially reported to OSD by the military services via 1015.15 DOD lodging reports. Nonetheless, Navy officials raised concerns over the consistency of the data being reported across the services.

The Air Force, Navy TDY program, and Marine Corps PCS program all experienced a decrease in appropriated fund support allocated for lodging program operations between fiscal years 2003 and 2005. The change in appropriated funds for the Navy’s TDY program was significant, falling from an estimated \$48.7 million to \$17.8 million, while nonappropriated funds provided for the program rose from \$85.7 million to \$109.9 million. Navy officials told us that appropriated funds allocated to this program decreased due to Navy-wide funding reductions. According to data from fiscal years 2003 through 2005, the Air Force allocates the greatest total amount of appropriated fund support for program operations among the

military services, but it also has the largest number of rooms in its inventory.

Lodging Programs Lack Business-based Performance Standards and Measures to Assess Program Effectiveness

Current DOD lodging guidance does not establish detailed performance standards and measures needed for monitoring and assessing program effectiveness. The Office of the Under Secretary of Defense (Personnel and Readiness), in conjunction with the military services, developed the DOD Lodging Strategic Plan and the DOD Lodging Program Standards in 1999, but these documents have not been updated or revised since then. The lodging program standards provide minimum requirements for program services and amenities, but task the military services with developing detailed operating plans. While the strategic plan establishes a mission statement and a list of goals for the DOD lodging programs, the Office of the Under Secretary has not created performance measures to assess progress in achieving these goals.

DOD lodging officials with work experience in private hotels told us that it is a common practice in the hospitality industry to use benchmarks to track progress and determine success. For example, Smith Travel Research annually publishes the Hotel Operating Statistics study, which provides an overview of U.S. lodging industry performance, drawing data from the operating statements of over 5,100 hotels. Some of the business-based measures reported in the study include room occupancy, average daily room rate, revenue per available room, and the number of rooms available and sold, among others. While DOD lodging programs are collecting and reporting some of these measures, lodging officials are unclear how the data is being used, since performance standards have not been established. In addition, some lodging officials expressed concerns about the reliability and consistency of the cost and program data, which will be discussed in greater detail below. Among the various reasons for this, the officials noted that DOD has not provided common definitions and guidance about how the data should be collected and reported. For consistent data collection and reporting, private hotels can use common definitions and calculations established in the Uniform System of Accounts for the Lodging Industry, issued by the Educational Institute of the American Hotel and Lodging Association.

Each fiscal year the military services submit the following reports to the Under Secretary of Defense (Personnel & Readiness) for each lodging program:

- a financial report that includes income and expense information;

-
- a lodging standards status report, which shows the proportion of facilities and rooms that provide the required services and amenities; and
 - a program report, which includes descriptive information and some summary statistics, such as the occupancy rate, average daily room rate, number of rooms sold, and room revenue.

The data in these reports are primarily descriptive and are not linked to performance measures of program efficiency and effectiveness, which limits their utility. In previous work, GAO has found that developing measurable performance standards coupled with ongoing monitoring and reporting on program performance can help program managers and Congress determine whether goals are being achieved. Given the variety of approaches that the military services have taken to operate the lodging programs, it is difficult to evaluate and compare their respective efficiency and effectiveness without commonly defined measures of success. In the absence of performance measures and reports, we used our discussions with lodging program officials and available data to describe the steps that the lodging programs have taken to meet the program goals and objectives from the DOD Lodging Strategic Plan.

Promoting Customer Satisfaction

The degree to which the military services' lodging programs solicit customer feedback is limited. DOD guidance requires that lodging programs periodically measure customer demand, usage, and satisfaction and act upon these findings,¹⁵ but no other specific guidance is provided.¹⁶ The Navy PCS program provides a customer satisfaction survey to every guest, and in 2005, an independent contractor calculated a customer satisfaction rate of 95 percent. By contrast, none of the other lodging programs are systematically tracking customer satisfaction centrally, though some installations may be soliciting customer feedback. Annually, the lodging programs report their overall lodging occupancy rate for the year, but because no standard way to calculate occupancy has been defined or used by all of the military services, it is unclear whether the figures can be compared across programs. For example, some programs could calculate the figure using total rooms in their inventory, while other programs could exclude rooms undergoing service or renovation.

¹⁵Department of Defense Instruction 1015.12, Lodging Program Resource Management, Section 4.4.2.1 (Oct. 30, 1996).

¹⁶Department of Defense Instruction 1015.12.

Determining Program Costs

DOD lodging was established with the goal of saving military travel funds by providing temporary lodging at a lower overall cost than paying for travelers to stay at commercial hotels. However, neither OSD nor the military services measure and report on cost effectiveness of their lodging programs. In addition, the cost data reported by the military services to OSD annually may not adequately reflect total lodging program costs, because lodging program officials stated that determining some appropriated fund support can be difficult. For example, some support services, such as snow removal, laundry, or fire and police protection, are paid for by the installation, and costs are not tracked by program. Therefore, lodging officials must estimate the value of the portion of the indirect appropriated fund support that was spent on lodging. For example, the Navy PCS program is the only lodging program that can determine actual electricity costs, while the other programs all estimate utilities expenses.

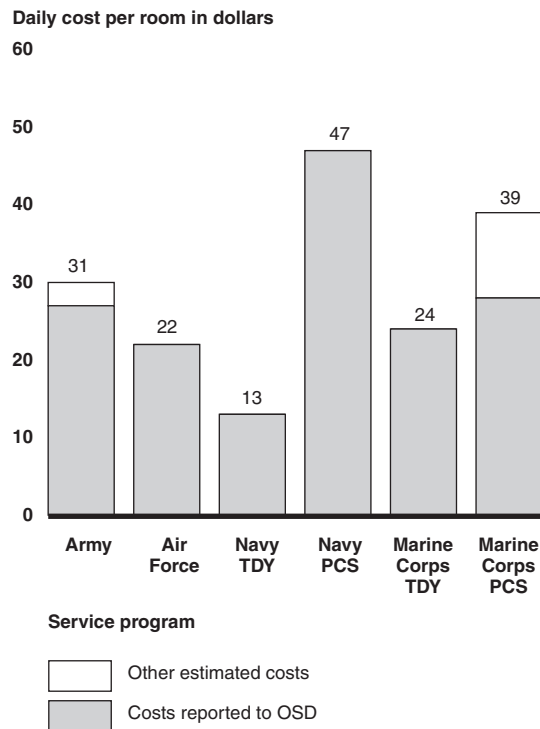
During our review we identified the following issues with the lodging costs reported by the military services for fiscal year 2005.

- The Army reported a total of \$6.2 million in appropriated funds support for fiscal year 2005 to OSD. However, the Army later collected data directly from every installation as part its privatization effort that indicated appropriated fund support for the same time period was actually about \$27.9 million; this included increased costs for personnel salaries, utilities, repairs, laundry, and supplies. In addition, while gathering information at the installation level for its privatization initiative, Army officials found great inconsistencies in the way that cost data and other information, such as the average daily room rate, were collected and calculated across installations.
- The Marine Corps PCS program reported total expenses of about \$9.6 million for fiscal year 2005, however this figure does not include support services paid for out of the Marine Corps Community Services account, which are reported to OSD in aggregate but are not tracked by program. Marine Corps officials estimate the value of the support services to the PCS lodging program was about \$3.7 million for fiscal year 2005.
- The Navy's TDY program does not use a consistent approach across installations to estimate utilities and collect other types of appropriated fund support, which raises questions about the reliability of the data. In addition, when following up on what appeared to be an unusual trend in program funding, we found that the Navy TDY program mistakenly overreported to OSD the amount of appropriated funds support the lodging program received in fiscal years 2003 and 2004 by approximately \$120 million total, which it later corrected.

- Similarly, after GAO observed significant increases in the Air Force's nonappropriated funds expenditures for fiscal year 2005, the Air Force realized it mistakenly overreported the amount of nonappropriated fund support by about \$120 million. The Air Force attributed this to a clerical error and corrected the report.

To compare estimated total program costs across the military services' lodging programs, which vary considerably in size, we standardized financial data reported to OSD on a per room basis. Daily program expenses per room varied considerably across programs for fiscal year 2005, ranging from \$13 to \$47 as seen in figure 2.

Figure 2: Lodging Program Expenses per Room for Fiscal Year 2005



Source: GAO analysis of data from the military services.

Notes: Reported expenses were paid with both appropriated and nonappropriated funds. Capital expenditures for the year are excluded from this chart, as the amounts are large, vary from year to year, and would skew the program costs when looking at only one fiscal year.

These data were officially reported to OSD by the military services via 1015.15 DOD lodging reports. Nonetheless, Navy officials raised concerns over the consistency of the data being reported across the services. This analysis did not include consideration of the military service's occupancy rates.

We also included the other estimated program expenditures identified by the Army and Marine Corps that were not included in the financial report to OSD, as previously discussed in this section of the report.

Maintaining and Recapitalizing Lodging Facilities

DOD lodging guidance sets forth basic guidance on quality standards, such as minimum room size and specific amenities that must be provided.¹⁷ In addition, the military services report annually how many of their facilities have a furnishing replacement plan, and a short- and long-term maintenance plan. However, each lodging program determines its particular strategy for maintaining and upgrading its rooms, as well as planning for facilities upgrades, such as major renovations or construction. For example, the Army currently relies on its Army Lodging Wellness Plan to repair, renovate, and replace its outdated lodging facilities. According to the Army, approximately 80 percent of its lodging inventory is currently in need of replacement or major renovation. The lack of a recapitalization component for long-term facility sustainment is part of what led the Army to consider privatization. On the other hand, the Air Force has developed additional guidance on what amenities facilities and rooms should include. The Air Force estimates that 9 percent of its rooms are what it considers to be inadequate, and it has implemented a room surcharge to save for capital improvements. The Navy and Marine Corps's TDY programs follow the DOD Lodging Standards, and maintenance and recapitalization plans are made at the installation level. Neither program has assessed the adequacy of room quality programwide. Meanwhile, the Navy and Marine Corps's PCS lodging officials stated that there are no inadequate rooms in the PCS lodging inventory and all rooms meet DOD Lodging Standards. The Navy conducts annual inspections of each PCS facility, evaluating not only the physical condition, but also service standards, management responsibilities, and financial procedures. Moreover, an independent company rated the Navy's PCS lodging the fifth cleanest hotel in the United States in 2005, based on customer interviews.

Table 4 shows the amount the lodging programs reported spending on capital expenditures, which includes new construction and major renovations of facilities and major equipment purchases for fiscal years 2003 through 2005. These figures exclude operating funds spent on minor renovations, and repair and maintenance. As the table illustrates, the services have relied almost entirely on nonappropriated funds for capital expenses.

¹⁷DOD 4165.63-M, DOD Housing Management (September 1993).

Table 4: Lodging Capital Expenditures by Military Service for Fiscal Years 2003 through 2005

Dollars in thousands

| Service | Fiscal year 2003 | | Fiscal year 2004 | | Fiscal year 2005 | |
|--------------|------------------|--------------|------------------|--------------|------------------|--------------|
| | Nonappropriated | Appropriated | Nonappropriated | Appropriated | Nonappropriated | Appropriated |
| Army | \$41,726 | \$0 | \$54,067 | \$0 | \$37,117 | \$0 |
| Air Force | 47,965 | 18,900 | 102,325 | 0 | 94,249 | 0 |
| Navy | | | | | | |
| TDY | 0 | 0 | 0 | 0 | 0 | 49,000 |
| PCS | 22,033 | 0 | 17,907 | 0 | 12,946 | 0 |
| Marine Corps | | | | | | |
| TDY | 218 | 0 | 851 | 0 | 1,843 | 0 |
| PCS | 14,026 | 0 | 407 | 0 | 2,380 | 0 |

Source: Military services' data on 1015.15 reports provided to OSD.

Note: The amounts shown include military construction, major renovations, and equipment purchases; the amounts shown do not include operating funds spent on minor renovations, repair, and maintenance.

Army's Privatization Plans Could Upgrade Facilities Faster but Will Increase Government Costs and Create Other Challenges

The Army believes the lodging developer will renovate existing or construct new lodging facilities sooner—in 7 years by 2014—than otherwise planned by the Army, and provide for adequate sustainment of lodging facilities over the 50-year project life. While this should result in improved quality of facilities, it will also result in additional cost to the government through increased lodging fees and will not produce the savings suggested by earlier Army analysis. Our analysis indicates that the Army's travel costs could increase by about \$75 million per year if all lodging facilities in the United States are privatized. In addition, the Army could incur approximately \$17.3 million in onetime costs associated with severance pay and discontinued service retirement annuities for nonappropriated fund lodging employees who would be let go if lodging is privatized. Furthermore, privatization of Army lodging may potentially affect occupancy levels and exacerbate rate disparities among bases and between official and unofficial travelers, as well as lead to inconsistencies in room rates among services at joint bases.

Army Expects Privatization to Provide Adequate Facilities Faster with Long-term Sustainment

The Army believes that the developer will renovate existing or construct new lodging facilities in 7 years (by 2014), and will provide for adequate sustainment of lodging facilities over the 50-year project life. In contrast, if the Army continues with its current Wellness Plan, it estimates that it would take until 2026 or later to bring all rooms up to adequate condition.

Additionally, the Wellness Plan does not generate funds for adequate long-term lodging sustainment.

In November 1999, the Army initiated the Army Lodging Wellness Plan to renovate and replace inadequate lodging. As part of the Wellness Plan, the Army collects a surcharge, the Lodging Capital Assessment (LCA), for each room night in Army lodging.¹⁸ The income from the surcharge collected on each room night is placed in the Army Lodging Fund and used to revitalize Army lodging facilities worldwide. This surcharge generated approximately \$229 million over the last 6 years for the Army Lodging Fund. The Army spent about \$75 million on lodging improvements. In addition, the Army used \$40 million to reimburse the Morale, Welfare, and Recreation Fund for guest houses, which were transferred to the Army lodging inventory when PCS travel was recognized as official travel and guest houses as official government lodging facilities.¹⁹

In 2001, in preparation for a study by an independent consulting firm, the Army estimated that it would cost about \$657 million to repair or renovate Army lodging worldwide. This study was conducted to facilitate the Army's consideration of a private loan to finance the Army Lodging Wellness Plan. In 2004, the Army revised its estimate to about \$1.1 billion for lodging revitalization in its U.S. facilities. Using the more recent 2004 estimate, GAO analysis determined that the Lodging Wellness Program would take approximately 20 years or more to bring all lodging facilities up to adequate standards.

GAO calculations estimate that the lodging surcharge generates \$52.2 million annually in income. Even though the Army Lodging Fund showed a positive balance of \$133.6 million in fiscal year 2005, some of these funds are already committed to revitalize lodging facilities overseas. If the amount currently in the Army Lodging Fund is applied entirely to U.S. facilities, lodging revitalization could take about 17 years to complete. In either case, it would take at least 20 years to bring rooms and facilities worldwide up to an acceptable level using the Army Lodging Wellness

¹⁸This fee, currently set at \$11 a night for adequate rooms, began at \$6 per night in 1999 and will cap in 2007 at \$12 per room per night. The Army applies a \$0.50 per night surcharge for inadequate rooms and a \$1.20 per night surcharge for foreign students in adequate rooms.

¹⁹Prior to 2001, the Army operated guest houses as a profit-generating MWR program to accommodate military personnel making a permanent change of station.

approach. Table 5 shows a comparison of alternatives to improve Army lodging.

Table 5: Comparison of Alternatives to Improve Army Lodging

| Dollars in millions | | | | |
|----------------------------|------------------|---------------------------------|-------------------|---------------------------------------|
| Program | Year of estimate | Army cost estimate ^a | Years to complete | Recapitalization/sustainment included |
| Army Lodging Wellness Plan | 2001 | \$657 | 13 | No |
| | 2004 | 1,100 | 20 | No |
| Privatization | 2006 | 1,630 | 7 | Yes |

Source: GAO analysis of Army data.

^aRepresents the cost to complete all of the renovation or new construction needs for all Army lodging facilities in the United States assuming current demands.

In addition to the ability to revitalize lodging more quickly, the privatization of Army lodging will provide sustained recapitalization over the 50-year span of the project. According to the Army, a clause requiring a recapitalization lock box will be included in the lease with the private developer, to ensure that funds are available for recapitalization.

Army Would Incur Increased Travel Costs

The Army’s plan to privatize its lodging would permit it to leverage the resources of the private sector to recapitalize and replace its existing lodging facilities. However, this will likely increase costs to the government through increased lodging fees and it is unclear to what extent other savings would occur as suggested by earlier Army analysis.

The Army’s initial cost analysis found that, over the 50-year life cycle of the proposed leasing of Army lodging to a private developer, the privatization scenario would result in a 16 percent cost savings to the Army within the 13 installations included in Group A, as shown in table 6.

Table 6: Army Comparison of Costs between Government-owned and Privatized Lodging for Group A Installations

| Dollars in millions ^a | | | | |
|--|----------------------|----------------------|--------------|------------|
| Category | Government lodging | Privatized lodging | Difference | |
| | | | Amount | Percent |
| Room Rates | \$1,301 ^b | \$1,608 ^c | | |
| Administrative and general expenses | 212 ^d | 21 ^e | | |
| Appropriated fund employees | 12 | | | |
| Capital expenditures (sustainment) | 100 | | | |
| New construction, renovation, and demolition | 306 | | | |
| Total life-cycle cost | \$1,931 | \$1,629 | \$302 | 16% |

Source: U.S. Army.

^aThe Army used a 3 percent discount rate in the cost comparison.

^bRepresents 57% of per diem.

^cRepresents 75% of per diem.

^dIncludes DPW maintenance, utilities, laundry, Self Service Supply Center services, fire and police protection, and other miscellaneous support.

^eIncludes asset management at each installation for first 2-years and Lodging Development Master Plan consultation.

We found that the Army's savings estimate was based on government "should costs," which compared predicted costs under the privatization and the amounts it "should cost" the government to own, operate, upgrade, sustain, and recapitalize the same lodging assets as the private developer. According to the Army, the estimate was prepared in accordance with OMB and DOD guidelines, which required an estimate based on "should cost." However, we believe, as we have reported in the past concerning cost estimates for military privatization projects,²⁰ that it would be more appropriate to compare the cost of a proposed privatization initiative with the cost of continued government ownership on the basis of the real planned expenditures and the timing of these expenditures. The Army acknowledges that, in the event that lodging is not privatized, the Army would likely not operate, upgrade, sustain, and

²⁰See [GAO-05-433](#), *Defense Infrastructure: Management Issues Requiring Attention in Utility Privatization* (May 2005).

recapitalize its lodging operations and assets as represented in the “should cost” estimate. According to the Army, it is the lack of upgrades and maintenance to its lodging facilities that caused it to look to privatization as an option in the first place. Furthermore, based on its ongoing analysis of lodging expenses, the Army recently acknowledged that it will cost the Army more to privatize its lodging than to continue Army ownership. However, despite the additional cost, the Army believes privatization of lodging is the best solution because in 7 rather than nearly 20 years, it will result in better facilities, and have a sustainment and recapitalization component that is not built into the current rates.

Our analysis indicates that Army travel costs would increase under lodging privatization, because the average room rate will increase from the current 57 percent of per diem to 75 percent of per diem. We estimate that this will result in an annual increase of about \$14.4 million for the installations in Group A and \$74.5 million if the Army privatizes all lodging in the United States. The Army agrees that travel costs will increase, but believes that the increased travel cost would likely be offset by reductions in other appropriated funding for lodging, for items such as utilities, laundry, and supplies. The Army estimated that appropriated fund support for the expenses associated with these items, across the United States, totaled about \$27.9 million in fiscal year 2005. Utilities accounted for about \$15.6 million, or 56 percent of the appropriated fund support, which was calculated based on national averages for utilities, since individual lodging facilities are not metered.²¹ The remainder of the appropriated support was for such items as laundry, supplies, and salaries. However, during GAO site visits to Army installations, lodging staff noted that appropriated funding for these items had diminished in recent years. For example, the lodging program at Fort Polk, Louisiana, is now responsible for services such as laundry and supplies, which were previously paid for by the installation with appropriated funds. At Fort Sam Houston, Texas, another installation scheduled for the first round of privatization, staff also stated that nonappropriated funds were used for things such as repairs, which appropriated funds should have covered. The Army noted that when the amount of appropriated funds used to support lodging expenses is reduced, more nonappropriated funds are needed to pay for the expenses. According to the Army, to generate more nonappropriated funds, generally room rates must be increased to cover expenses.

²¹Under the Army’s PAL program, the private developer will reimburse the government for utilities, as well as for all additional support services provided by the government.

According to Army officials, the Army would also incur a total of about \$17.3 million in onetime costs for severance pay and discontinued service retirement annuities.²² The Army currently estimates that severance pay will cost approximately \$12.7 million for about 2,000 employees²³ (most of whom are paid with nonappropriated funds) who would be let go if lodging is privatized. Additionally, the Army estimates that about 59 of the 2,000 employees, in addition to receiving severance pay, may be eligible for a discontinued service retirement annuity.²⁴ According to the Army, the most recent cost estimate for discontinued service retirement annuities is around \$4.6 million. However, the exact amount of severance pay and discontinued service annuities will not be known until lodging at each installation is privatized and the Civilian Personnel Office calculates accurate severance pay, and where applicable discontinued service annuities, for each individual employee. According to the Army officials, the severance pay and discontinued service retirement annuities will be paid with nonappropriated funds from the centralized Army Lodging Fund.

Other Potential Operating Challenges of Lodging Privatization

The privatization of Army lodging may potentially affect occupancy levels and exacerbate rate disparities among bases and between official and unofficial travelers, as well as promote more notable inconsistencies in room rates among services at planned joint bases.

If the Army lodging facilities are privatized, the occupancy rates could decline because official travelers would not be required to stay in the privatized facilities. Under current regulations, when adequate quarters are available on the U.S. installation to which a service member is assigned TDY and the service member uses other lodgings as a personal choice,

²²This is the Army's estimate as of Dec. 4, 2006. The estimate was prepared using the Army's Civilian Human Resources Agency Report dated Sept. 30, 2006. According to the Army, the estimate is not complete because it does not include information for 52 employees located at Fort Hamilton, New York; and Fort Hunter Liggett, Camp Parks, and Fort BT Collins, California. The estimate also does not include lodging employees at installations (Fort Monmouth, New Jersey; U.S. Army Garrison, Selfridge Air National Guard Base, Michigan; Fort Monroe, Virginia; and Fort McPherson, Georgia) that will be closed because of Base Realignment and Closure 2005 actions.

²³This number includes all Army lodging employees in the United States and Puerto Rico.

²⁴The Army's nonappropriated funds retirement plan includes a voluntary retirement authority and discontinued service retirement benefit when installations are undergoing a substantial reduction or when an individual's position is eliminated due to a business based action.

lodging reimbursement is limited to government quarters cost on the U.S. installation to which he was assigned.²⁵ Army officials acknowledge that initially there may be a decline in demand for on-base lodging, as it will take some time for the currently inadequate rooms to be renovated and as some travelers may want to stay off-base simply because they can. However, Army officials believe that if a decline in demand does occur it would not last long, because travelers may have difficulties finding affordable lodging that is located at a reasonable distance from the post. Our work on DOD's housing privatization efforts has shown that occupancy rates are below expectations for some projects. In April 2006 we reported²⁶ that 16, or 36 percent, of 44 awarded housing privatization projects had occupancy rates below expectations. In an attempt to increase occupancy and keep rental revenues up, 20 projects began renting housing units to parties other than military families, including single or unaccompanied service members, retired military personnel, civilians and contractors who work for DOD, and civilians from the general public. Army officials believe that the housing and lodging markets are sufficiently different that they should not be compared too closely. For example, they noted that a TDY or PCS traveler generally stays in lodging for 1 or 2 weeks, while military housing is usually occupied for 2 or 3 years.

Furthermore, privatization may lead to changes for unofficial travelers. Unofficial travelers, who account for 7 percent of those accommodated at Army lodgings, currently pay the same rate as official travelers. However, with privatization, the private entity managing Army lodging could charge unofficial travelers the market rate, which may be higher than the amount official travelers will pay. Army officials noted that unofficial travelers should pay market rates; however, the Army has not enforced this because it wants to minimize the out-of-pocket cost for unofficial travelers such as retirees or visiting family members.

Privatization of lodging may also create some inconsistencies in lodging pricing as DOD implements its plans to establish joint bases as directed by the 2005 base realignment and closure recommendations. Under the approved recommendations, the management of installation support

²⁵The Joint Federal Travel Regulations, Uniformed Services, Volume 1, Chapter 1, Applicability and General Information, Section U1045 (2006).

²⁶GAO, *Military Housing: Management Issues Require Attention as the Privatization Program Matures*, [GAO-06-438](#) (Washington, D.C.: Apr. 28, 2006).

services, including lodging, would be consolidated under a single service at various installations throughout the United States.²⁷ Two installations in the Army's Group A, Fort Sam Houston and Fort Myer, are included in this recommendation. While the Army does not believe that privatization will affect plans for joint basing, we believe it could lead to inconsistencies in room rates among services at joint bases. For example, a service member on official travel to the San Antonio area would pay more for a room at Fort Sam Houston than at either Lackland or Randolph Air Force Bases. Using current per diem and the projected privatization pricing allowance,²⁸ a room at Fort Sam Houston would cost \$70 per night under privatization, while a room at either Lackland or Randolph Air Force Base would cost \$27 per night. Officials in the Office of the Under Secretary of Defense for Personnel and Readiness and the Air Force question whether the Army should have included installations in the joint basing recommendation in their initial group of lodging facilities to privatize because of the uncertainty about how joint bases will operate.

Oversight and Accountability for Privatization of Army Lodging Program Will Follow Military Housing Model

The Army is using the MHPI legislation as its authority to establish the lodging privatization program. The Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics provides oversight for MHPI-authorized projects and, according to officials from that office, will provide oversight for lodging privatization similar to that provided for military housing privatization. The MPHI legislation has several provisions that direct the Secretary of Defense to notify Congress of his actions under certain circumstances. For example, the Secretary of Defense must submit written notification to Congress before transferring appropriated amounts²⁹ to certain kinds of funds, as well as submit a report describing

²⁷Department of Defense installations scheduled for joint basing as part of Base Realignment and Closure 2005 include: *Under Army Lead*: Fort Lewis, Fort Myer, Henderson Hall, and McChord Air Force Base; *Under Navy Lead*: Anacostia Naval Annex, Anderson Air Force Base, Bolling Air Force Base, Fort Story, Hickam Air Force Base, Naval Research Laboratory, Naval Station Norfolk, Naval Station Pear Harbor, and Navy Base Guam; *Under Air Force Lead*: Andrews Air Force Base, Charleston Air Force Base, Elmendorf Air Force Base, Fort Dix, Fort Eustis, Fort Richardson, Fort Sam Houston, Lackland Air Force Base, Langley Air Force Base, McGuire Air Force Base, Naval Air Engineering Station Lakehurst, Naval Air Facility Washington, Naval Weapons Station Charleston, and Randolph Air Force Base.

²⁸Under privatization, the room rate would be limited to 75 percent of per diem across the installations in Group A.

²⁹10 U.S.C. 2883(f).

the contracts that the Secretary proposes to solicit under the MPHPI legislation at least 30 days before doing so.³⁰ Additionally, OSD and the military services use the MPHPI program evaluation plan to monitor the physical and financial health of awarded projects, and evaluate the costs and benefits of privatization.³¹ The program evaluation plan requires semiannual reporting to OSD for all awarded MPHPI projects. According to OSD officials, since the Army is using the same MPHPI legislation as authority to privatize its lodging, these reporting requirements should also be applicable, and would provide the Congress and OSD with a high-level of oversight as the Army begins to implement its program. The Army acknowledges that it is aware of the congressional reporting requirements for MPHPI legislation projects and intends to comply with the requirements as it implements its lodging privatization plans.

Revised DOD Lodging Policy Does Not Provide Clear Performance Standards

On October 6, 2006, DOD provided the military services with revised lodging guidance, which addressed some issues raised in prior GAO recommendations but does not provide clear program performance standards and measures.³² The new guidance requires the military services to (1) develop and maintain a 5-year recapitalization plan, (2) base the construction of lodging rooms on historical data and future mission changes, and (3) construct certain new lodging facilities to meet the demand of official TDY and PCS travelers. The revised guidance, however, does not specifically address or strengthen OSD's ability to determine whether lodging programs use appropriated or nonappropriated funds to pay for specific program expenses.

Some of the revisions in DOD Instruction 1015.11 improve guidance by clarifying requirements, but the revisions fall short of developing clear performance standards and measures. For example, the Instruction would require that services construct certain new lodging facilities to meet the demand of customers on official TDY or PCS travel. However, the customer data needed to justify construction is not sufficiently defined to

³⁰10 U.S.C. 2884.

³¹In a March 2000 report, GAO recommended that DOD create a privatization evaluation plan to be used consistently by all the military services, and that the plan should include performance measures, such as evaluation of each authority, comparison of actual to estimated costs of projects, assessment of developer performance, and so forth. See GAO, *Military Housing: Continued Concerns in Implementing the Privatization Initiative*, [GAO/NSIAD-00-71](#) (Washington, D.C.: Mar. 30, 2000).

³²DOD Instruction 1015.11, Lodging Policy (Oct. 6, 2006).

ensure consistent collection across programs. Additionally, though the guidance states that DOD lodging programs should be professionally managed and business-based, it does not specifically define such methods or performance measures that could be utilized to demonstrate the lodging program's efficiency or effectiveness.

Furthermore, the revised lodging guidance does not address the role of the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics regarding privatized lodging. With the Army's privatization efforts, the office of the Under Secretary of Defense for Acquisition, Technology, and Logistics has begun to play a more active role recently in conjunction with the Army's privatization plans, given the OSD office's experience with housing privatization. Officials from both offices said they plan to meet to clarify their respective roles and responsibilities for the Army's privatized lodging facilities.

Conclusions

Under a decentralized approach to lodging management, the military services have individual and somewhat dissimilar approaches to the management and funding of TDY and PCS lodging facilities. While some reporting to OSD on lodging operations occurs, without standard data collection and reporting methods and adequate oversight, the reliability of the data submitted to OSD is unclear. In addition, OSD and the military services lack information that would enable them to evaluate the effectiveness of their lodging programs and make comparisons across programs that would aid in future program management decisions. We do not see any reason why it would not be possible for OSD to promote consistent data collection and reporting, without unnecessarily requiring the military services to run their programs in exactly the same fashion.

Most importantly, DOD and the military services lack but would benefit from greater use of performance measures to determine whether goals set forth in the lodging strategic plan are being achieved, and to provide adequate oversight of the Army's lodging privatization initiative. Though one of the DOD lodging strategic goals is to utilize business-based methods of operation, the military services have not adequately sought out best practices and management methods commonly used in the private hotel industry. For example, they have not effectively utilized tools such as the Uniform System of Accounts for the Lodging Industry or the Smith Travel Research HOST study. Since DOD has established goals for its lodging programs that go beyond the private industry goal of profit generation, however, it would be insufficient to merely adopt performance standards and measures used by commercial counterparts. Additionally, as

the Army moves forward with its plans to privatize lodging, it needs to provide the same level of accountability to the Congress and OSD for program costs and performance as it does for its housing privatization projects. Furthermore, DOD policy must address who will provide policy and oversight for privatized lodging.

Recommendations for Executive Action

We recommend that the Secretary of Defense direct the Under Secretary of Defense for Personnel and Readiness in consultation with the Under Secretary of Defense for Acquisition, Technology, and Logistics to (1) clarify their respective roles for establishing policy and overseeing the lodging program, and (2) update the DOD lodging program strategic plan, to include developing performance standards and measures to ensure that the goals of the lodging program strategic plan and Army plans to privatize its lodging are being achieved.

Agency Comments and Our Evaluation

In commenting on a draft of this report, DOD concurred with both of our recommendations and indicated planned actions and timeframes for accomplishing them. The department's response indicated that the Army's analysis shows the life cycle costs are less under privatization than using the current system to achieve the same results. As we noted in our draft and this final report, privatization of lodging while providing faster recapitalization and sustainment of facilities will likely increase costs to the government by about \$75 million per year through increased lodging fees. The department separately provided various technical comments which are incorporated where appropriate. The department's written comments are presented in appendix III.

We are sending copies of this report to the Secretary of Defense; the Under Secretaries of Defense for Personnel and Readiness, and for Acquisition, Technology, and Logistics; the Secretaries of the Army, Navy, and Air Force; and the Director, OMB. We will also make copies available to others upon request. In addition, the report will be available at no charge on GAO's Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me on (202) 512-5581 or holmanb@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page

of this report. The GAO staff members who made major contributions to this report are listed in appendix IV.

A handwritten signature in black ink, reading "Barry W. Holman". The signature is fluid and cursive, with the first name "Barry" being the most prominent.

Barry W. Holman, Director
Defense Capabilities and Management

Appendix I: Scope and Methodology

To determine how the military services' operate and assess their lodging programs, we reviewed Department of Defense (DOD) and military service lodging policy, analyzed data regarding program funding, room rates, and occupancy rates by type of traveler. We interviewed officials from: the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics; Office of the Under Secretary of Defense for Personnel and Readiness; and the Army, Air Force, Navy, and Marine Corps offices responsible for managing the temporary duty (TDY) and permanent-change-of-station (PCS) lodging programs. We obtained and reviewed financial statements; the military services' annual reports submitted to the Office of the Secretary of Defense (Personnel and Readiness); and reports prepared by independent auditors, the DOD Inspector General, and military audit agencies on DOD lodging programs. We identified some discrepancies in each of the military services' data, but we discussed and resolved these discrepancies. Therefore, we believe the military services' data are sufficiently reliable for our purposes. We visited selected military installations to determine how lodges are managed and to observe their physical condition. Installations were selected to include each of the six lodging programs and a range of geographical locations. Specifically, we visited Fort Polk, Louisiana; Fort Sam Houston, Texas; Lackland Air Force Base, Texas; Randolph Air Force Base, Texas; Naval Air Station North Island, California; Naval Amphibious Base Coronado, California; Marine Corps Base Quantico, Virginia; and Marine Corps Air Station Miramar, California.

To determine the potential effect of the privatization of Army lodging, we reviewed the Army's life-cycle cost analysis that supported its decision to privatize lodging. We interviewed officials in the Office of Management and Budget, Offices of the Under Secretaries of Defense (Personnel and Readiness) and (Acquisition, Technology, and Logistics), and the Assistant Secretary of the Army (Installations and Environment) regarding the Army plans to privatize lodging. To determine the effect on Army travel costs, we compared the average daily room rate for Army lodging to the projected room rate under the privatization effort. For this analysis, we used the fiscal year 2005 occupancy rate for Army lodging and the Army lodging room rates and per diem rates for fiscal year 2006. Additionally, we reviewed analysis prepared by PricewaterhouseCoopers LLP, the Army Community and Family Support Center, and the Army Privatization Office regarding the projected cost and time frames for recapitalizing all Army lodging in United States. We also analyzed the amount of funds accumulated in the Army Lodging Fund as a result of the lodging surcharge to assess how much is available for lodging revitalization. Although we did not test reliability of these data, we did discuss the

processes and procedures used by the Army to assure the reliability of the data they used and provided for our review. Therefore, we believe the Army's data is sufficiently reliable for our purposes. Finally, we obtained information concerning the status of previous Army, Air Force, and Navy lodging public-private ventures. We interviewed appropriate military service officials and private developers/managers involved in these public-private ventures to gain insight into their experience and potential opportunities or challenges with privatization.

To determine DOD's progress in revising lodging policy guidance, we reviewed the lodging policy revisions proposed by the Office of the Under Secretary for Personnel and Readiness and conducted a comparative analysis to current DOD lodging program policies. We also interviewed Office of the Secretary of Defense and military service officials to determine the status of the draft revisions and their perspective on the proposed changes.

We conducted our work from December 2005 through September 2006 in accordance with generally accepted government auditing standards.

Appendix II: Military Services' Previous Lodging Public-Private Ventures

Between 1987 and 2001, the military services entered into 10 public-private ventures for lodges; however, only 7 are still operating. In two cases, at Fort Bliss, Texas, and Fort Drum, New York, the Army purchased the facilities from the developers. According to the Army officials, the Army always intended to resume ownership and operation of the Fort Bliss lodging facility. We were told that the public-private venture at Fort Drum was not successful because the occupancy never reached the anticipated levels because of a change in mission. The Army agreed to buy the facility from the developer and resume operations.

Private developers, management personnel, and military personnel associated with these prior public-private ventures believe the programs are successful if there are well-written contracts that include specific provisions for rate setting, facility standards, revenue caps, and renegotiation of these provisions at specified intervals throughout the life of the lease. All but one noted that a positive ongoing relationship between the installation commander and lodging personnel and the developer and his or her management team is important. Table 7 summarizes the military services' previous public-private ventures to provide lodging.

**Appendix II: Military Services' Previous
Lodging Public-Private Ventures**

Table 7: Military Services' Previous Lodging Public-Private Ventures

| Service | Location | Date | Authority | Government risk | Status |
|----------------|--|--|------------------|---|---|
| Army | Fort Drum, NY | April 1987 | 10 U.S.C. 2667 | Army Morale, Welfare and Recreation Fund underwrote debt | Purchased from developer by Army and absorbed into Army lodging |
| | Schofield Barracks, HI | June 1987 | 10 U.S.C. 2667 | Army Morale, Welfare and Recreation Fund underwrote debt | Army is currently in arbitration with developer |
| | Fort Bliss, TX | April 1989 | 10 U.S.C. 2667 | Army Morale, Welfare and Recreation Fund underwrote debt | Purchased from developer by Army and absorbed into Army lodging |
| | West Point, NY | October 1999 | 10 U.S.C. 2667 | Army Morale, Warfare and Recreation Fund underwrote commercial bond | Currently operated by developer |
| | Hunter Army Airfield, GA Fort Bragg, NC Fort Irwin, CA | January 2001 January 2001 March 2001 | 10 U.S.C. 2667 | None identified | Currently operated by developer |
| Air Force | Wright Patterson Air Force Base, OH | 1990 | 10 U.S.C. 2667 | None identified | Currently operated by developer |
| Navy | Naval Station Newport, RI | July 1992 | 10 U.S.C. 2809 | Navy guaranteed a certain level of occupancy | Currently operated by management company |
| | Submarine Base New London, CT | July 1992 | 10 U.S.C. 2809 | Navy guaranteed a certain level of occupancy | Currently operated by management company |

Source: GAO interviews with OSD and private developers, management personnel, and military personnel associated with the public-private ventures.

Appendix III: Comments from the Department of Defense



PERSONNEL AND
READINESS

OFFICE OF THE UNDER SECRETARY OF DEFENSE
4000 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-4000

DEC - 4 2006

Mr. Barry W. Holman
Director, Defense Capabilities and Management
U.S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Mr. Holman:

This letter is the Department of Defense (DoD) response to the Government Accountability Office (GAO) draft report, GAO-07-164, "DEFENSE INFRASTRUCTURE: Continuing Challenges in Managing DoD Lodging Programs as Army Moves to Privatize Its Program," dated November 2, 2006 (GAO Code 350788).

While the DoD concurs with the draft report, it should be noted that even though the report identifies that privatization will increase Army temporary duty (TDY) costs, it does not emphasize that these costs must be weighed against the benefits of improved facilities and long-term sustainment. Indeed, the Army's analysis shows the life cycle costs are less under privatization than using the current system to achieve the same results.

DoD response to the report's two recommendations is enclosed. Suggested technical changes for clarification and accuracy have been provided separately.

The Department appreciates the opportunity to comment on the draft report.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael L. Dominguez", is written over a printed name.

Michael L. Dominguez

Enclosure:
As stated



GAO DRAFT REPORT -- DATED NOVEMBER 2, 2006
GAO CODE 350788/GAO-07-164

“DEFENSE INFRASTRUCTURE: Continuing Challenges in Managing DoD Lodging
Programs as Army Moves to Privatize Its Program”

DEPARTMENT OF DEFENSE COMMENTS
TO THE GAO RECOMMENDATION

RECOMMENDATION 1: The GAO recommended that the Secretary of Defense direct the Under Secretary of Defense for Personnel and Readiness in consultation with the Under Secretary of Defense for Acquisition, Technology, and Logistics to clarify their respective roles for establishing policy and overseeing the lodging program.

DOD RESPONSE: Concur. The DoD will clarify the respective roles of the Under Secretary of Defense for Personnel and Readiness and the Under Secretary of Defense for Acquisition, Technology, and Logistics for establishing policy and overseeing the lodging program. A memorandum of agreement will be signed by March 31, 2007, and all applicable DoD Directives and Instructions will be revised.

RECOMMENDATION 2: The GAO recommended that the Secretary of Defense direct the Under Secretary of Defense for Personnel and Readiness in consultation with the Under Secretary of Defense for Acquisition, Technology, and Logistics to update the DoD lodging program strategic plan, to include developing performance standards and measures to ensure that the goals of the lodging program strategic plan and Army plans to privatize its lodging are being achieved.

DOD RESPONSE: Concur. The DoD agrees to update the DoD lodging program strategic plan, to include developing performance standards and measures to ensure that the goals of the lodging program strategic plan and Army plans to privatize its lodging are being achieved. The DoD lodging program strategic plan will be updated by January 31, 2008, to include performance standards and measures. With regard to Army lodging privatization, the plan is to use performance standards and measures similar to those that are providing effective oversight of the Army’s housing privatization program. As part of the business agreement with the lodging privatization developer, oversight procedures will be negotiated to address key performance metrics such as occupancy targets, debt servicing, unit costs, recapitalization account balance, customer satisfaction, and the need for independent verification of critical data.

Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

Barry W. Holman, (202) 512-5581 (holmanb@gao.gov)

Acknowledgments

In addition to the person named above, Michael Kennedy, Assistant Director; Claudia Dickey, Kate Lenane, Leslie Sarapu, Julie Silvers, and Cheryl Weissman also made major contributions to this report.

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